



National Audit Office



REPORT

Cabinet Office functional savings

Cabinet Office

SESSION 2022-23
25 OCTOBER 2023
HC 1865



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Cabinet Office functional savings

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Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 23 October 2023

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

19 October 2023

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The National Audit Office study team consisted of:


Eleanor Fairbairn, Brian Kennedy, Esther Namukasa, Jacob Rose and Poppy Sparham, under the direction of Sian Jones.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

 020 7798 7400

 www.nao.org.uk

 @NAOorguk

Key facts

£3.4bn

cash-releasing financial savings reported by the Cabinet Office each year in 2020-21 and 2021-22 in its Government Efficiency Savings publication

£1.0bn

non-cash-releasing savings reported by the Cabinet Office in its 2021-22 Government Efficiency Savings publication

5%

efficiency savings target required from departments over the Spending Review period, finishing 2024-25

2021

Lord Maude published a review of the cross-cutting government functions and recommended that efficiency savings be published. The Cabinet Office began publishing its efficiency savings report that year

2023

HM Treasury published new guidance for departments on how to track programme delivery and report efficiencies

21

in 2023, the Government Internal Audit Agency made 21 recommendations for improving the functional savings reporting process

Summary

Introduction

1 Improving efficiency means government being able to spend less to achieve the same or greater results, or to achieve better results while spending the same amount. In our 2021 report *Efficiency in government*, we noted that government can achieve efficiency gains by carrying out activities faster; with fewer resources or to a higher standard without additional resources ('technical' efficiency); or by focusing resources on those activities with the best ratio of costs to the benefits achieved ('allocative' efficiency). It is important that government has good data on efficiencies so that it can make effective decisions about where to spend public money.

2 In the 2021 Spending Review HM Treasury set multi-year budgets for central departments, encouraging them to achieve efficiency savings of approximately 5% on their "day-to-day" budgets by 2024-25. In the Spring Budget 2023, the government committed to "continuing to identify ways to work more efficiently and reduce day-to-day running costs of government".

3 The first government functions were formally established in 2013. They are groupings of professionals who work across government bodies to provide expert skills. By cutting across departments and arm's-length bodies, functions seek to: develop and deploy specialist expertise; set strategies for cross-government working; and set and assure standards for their area of expertise. There are now 14 government functions that cover activities such as procurement, major project delivery and finance. Through their work, functions also seek to increase the efficiency of the work undertaken by government.

4 For the past two years, the Cabinet Office has measured and reported on financial efficiency savings and wider benefits made by cross-cutting government functions. The exercise is intended to cover savings made by central government functional teams in their work with government departments.¹ The exercise began following a review of the functions by Lord Maude, published in 2021, which recommended that functions be given a renewed mandate and that the functions should publish performance data to demonstrate their benefit.

¹ Central government functional teams are the parts of functions which sit at the centre of government, rather than being embedded within departments.

5 The Cabinet Office is responsible for commissioning the functions to provide data on efficiency savings and for assuring that data. The Cabinet Office conducts verification checks on data received from functions and manages the overall annual reporting of efficiency savings. The Government Internal Audit Agency (GIAA) is responsible for assuring the claimed savings before publication. GIAA assesses whether the methodologies have been appropriately designed, are robust and fit for purpose. A ‘moderate’ assurance rating (a reasonable level of confidence in the savings reported) or above is required for a group of savings to be published by the Cabinet Office.

6 In March 2022, the Cabinet Office published the efficiency savings achieved by “functions, departments, and other central government bodies” in 2020-21. The Cabinet Office reported that £3.4 billion of cash-releasing savings were produced “by improving operational efficiency and effectiveness”. The largest efficiencies in 2020-21 were attributed to the Counter Fraud function (£1.4 billion) and the Commercial function (£1.2 billion). Cabinet Office did not report non-cash-releasing savings in 2020-21. The publication also noted non-financial wider benefits from the Legal, Property, Analysis, Security and Finance functions, as well as Government Business Services and the Crown Commercial Service.

7 In July 2023, the Cabinet Office reported that the cross-cutting central functional teams delivered £4.4 billion financial savings in 2021-22. That £4.4 billion consisted of £3.4 billion cash-releasing savings and £1 billion non-cash-releasing savings. The Counter Fraud function and the Debt Management function had the largest savings, each £1.3 billion. The report also included unaudited wider benefits from the Analysis, Property and Human Resources functions.

Scope of this work

8 In this report we:

- explain how and why functions track efficiency savings;
- examine the roles and responsibilities of the functions, the Cabinet Office and the GIAA in monitoring efficiency savings, and the limitations of the current approach; and
- discuss what lessons can be learned from this exercise for future efficiency work.

9 We have not fully reperformed the exercise GIAA and Cabinet Office undertook to assure the savings. We have not looked at any savings departments calculate which do not form part of the functional savings.

Key findings

Coverage and consistency of work undertaken to identify savings

10 Cabinet Office has not consistently reported efficiency savings delivered by the functions. The functions are of different shapes and sizes which means they have different approaches to calculating savings. Cabinet Office states in its July 2023 publication that central government functional teams (the parts of functions which sit at the centre of government, rather than in departments) delivered £4.4 billion of savings in 2021-22. However, Cabinet Office's technical note to the publication states that some £1 billion of the Counter Fraud savings that Cabinet Office included in the total were delivered by department-led activities supported by the central function, leading to inconsistency in what savings are included in the £4.4 billion figure (paragraphs 1.9 and 1.10).

11 The functional savings report may give an incomplete picture of savings generated across all functions. The Cabinet Office reports savings from those functions headquartered in the Cabinet Office for the period it is reporting on – 10 functions for the 2021-22 report – but savings generated by functions headquartered elsewhere in government for the period being reported on are not captured in the exercise. The Cabinet Office challenges functions headquartered in the Cabinet Office where it believes savings have been achieved but not submitted as part of the process. The Cabinet Office recognises the importance of incentivising functions to identify savings. In 2023, GIAA noted that there was a risk that efficiencies might be underreported due to the amount of support the Cabinet Office could provide to the functions during the exercise (paragraph 2.6).

12 Functions use different approaches to calculate efficiency savings. Each function sets their own methodology for tracking and claiming savings from their work, to reflect the different types of work they undertake. For example, the Government Communication Service compares the baseline forecast for each campaign to the final value approved through the advertising, marketing and communications (AMC) spending control process to calculate its efficiencies, whereas the Government Debt Management function monitors the additional yield it creates over and above the day-to-day activities carried out by the department. Functions are responsible for verifying the supporting data and confirming appropriate levels of governance to ensure confidence in the efficiencies before reporting (paragraph 2.3).

GIAA's assurance work on the savings

13 The GIAA's audit looks at the processes the functions use to calculate and assure the savings claimed. It does not consider whether efficiency savings create adverse effects on other parts of government. GIAA's methodology changed for the 2021-22 financial year. For 2020-21, GIAA provided assurance ratings for each identified saving with a focus on the evidence base supporting the claimed saving. For 2021-22, it provided a rating for a group of savings. We have previously highlighted understanding the impact of efficiencies on other parts of government as a key element of good practice in efficiency reporting. The scope of the audit does not include assurance over whether savings affect resilience planning, service user experience, or add costs to other parts of government. The Cabinet Office does not ask functions to assess whether their savings might add costs in other areas, because it considers that this is not always possible or proportionate (paragraphs 2.7 and 2.10 and Figures 5 and 7).

14 GIAA found that most functions had clear methodologies in place and had gathered evidence to support the headline savings. GIAA examined the processes around savings for each function, assessing the risks in relation to: methodologies and assumptions; insufficient evidence; inaccurate claimed benefits; incorrect reporting period; and insufficient verification and sign-off of claimed savings. Based on the assessment, GIAA made several recommendations to improve the functions' existing processes (paragraphs 2.10 and 2.11 and Figure 5).

15 GIAA gave the savings a 'moderate' assurance rating in 2021-22 overall but found some weaknesses in the functions' approaches. It noted that a lack of coordination and consistency in the current approach could lead to risks in aggregating the data as well as limiting opportunities for cross-functional learning. GIAA concluded that the current processes and reliance on the functions did not sufficiently mitigate the risk of claims being under- or overstated. In April 2022 GIAA noted that while some savings had been through an initial quality assurance process conducted by the Cabinet Office, as part of which it requested improvements, functions did not always make the requested changes (paragraphs 2.9, 2.10, 2.12 and 2.17).

Responding to challenge from the GIAA

16 Cabinet Office and the functions have not acted on all GIAA's recommendations. The Cabinet Office has developed an action plan to action GIAA's 2023 recommendations. We have not seen evidence of a similar plan for the previous year. In 2023 GIAA made 21 recommendations for improving the functional efficiencies reporting process. Most of those recommendations were aimed at individual functions, urging them to address specific issues in their 2021-22 submissions, but not all these were actioned before the 2021-22 report was published. Overall, Cabinet Office has deemed two recommendations to be out of scope, believes nine recommendations are completed and ten are ongoing (paragraphs 3.6 and 3.7).

17 Our detailed review of five audited efficiency savings found GIAA's ability to audit the savings was sometimes hindered by gaps in the evidence and that it flagged some issues around the accuracy of reporting. For instance, the GIAA raised concerns that the Government Grants Management Function did not receive sufficient assurance from departments that the data entered into the Spotlight grants due diligence tool is accurate. In terms of accuracy of reporting, in one instance Cabinet Office published a savings figure that included costs, despite GIAA's recommendation that it should deduct these, although the Cabinet Office did include a caveat stating that it included the additional costs. However, in another example from our sample the Government Communication Service did adjust its calculations in light of GIAA's advice (paragraphs 2.14 to 2.17 and Figure 6).

Learning and next steps

18 The Cabinet Office does not share examples of good practice between functions, although functions would welcome this. The quality of efficiency reporting varies across functions. Some functions have more experience than others in tracking efficiency savings. Each function sets its own methodologies for tracking and claiming savings from its work. GIAA recommended that the Cabinet Office produce "principles-based" guidance for functions about how savings should be calculated and presented and that the Cabinet Office share good practice among the functions. Functions we spoke to said they would welcome this (paragraphs 2.3, 2.11, 2.13 and 3.8).

19 HM Treasury has issued a framework for tracking, monitoring and overseeing efficiency savings, which will run alongside the functional efficiencies' framework. The framework provides definitions and reporting standards for efficiency savings, best practice guidance for reporting and guidance on how departments should be reporting efficiency savings to HM Treasury. HM Treasury expects departments to adopt the framework for reporting efficiency savings for the financial year 2023-24 and arm's-length bodies to do so in 2024-25. HM Treasury and the Cabinet Office expects that some convergence will occur naturally in the approaches taken to efficiency savings, as government bodies focus on efficiencies in a more standard and systematic way but HM Treasury currently does not expect functions to report to it if they do not already (paragraphs 3.11 to 3.14).

Conclusion

20 Government has a long-held ambition to improve the efficiency of public services, including by embedding cross-cutting functions to identify and share efficient ways of working. Creating good information around savings is essential so that government can track its return on investment and make good decisions about where to best invest limited resources in the future.

21 The GIAA has given the Cabinet Office's efforts to measure functional efficiencies a 'moderate' assurance rating overall, but there are gaps in the assurance it is able to provide. There is no external assurance of individual savings and where recommendations are made, these are not consistently acted on. Although most functions have a clear methodology in place, some do not. Overall, functions adopt different approaches and there is limited evidence of learning across functions. The Cabinet Office is only two years into publishing efficiency savings and has learned some valuable lessons, but it has further to go to be able to robustly quantify the savings delivered by the functions.

Recommendations

22 For future exercises the Cabinet Office should embed a more consistent approach to reporting functional savings so that it can provide clarity and transparency about the nature of the figures it publishes. It should:

- a** be clear about what savings it is reporting, to what extent central functional teams contributed to the savings, and make sure it is consistent in its application of this approach with each function;
- b** include in its report an explanation of:
 - the challenges and limitations of calculating and reporting efficiencies,
 - how it intends to use the figures produced by functions,
 - why the different methodological approaches used are robust enough to support their intended purpose, and
 - the extent of the assurance provided by GIAA over the figures in the functional efficiency savings;
- c** set out the approach it expects functions to take in identifying and calculating efficiencies, based on the good practice set out in Figure 7 of this report and considering the *Government Efficiency Framework*;
- d** consider broadening its functional savings exercise to include all functions;
- e** work with the functions to ensure GIAA's recommendations are responded to in a timely way in accordance with GIAA's expected timescales;
- f** more broadly, as Cabinet Office continues to refine its reporting of efficiencies, it should **work with HM Treasury to make sure that their approaches align where possible and are complementary**, and that lessons learnt and good practice from both exercises are being shared across government.

Part One

Cabinet Office's reporting of functional efficiency savings

1.1 This part sets out:

- the role of government functions;
- Lord Maude's 2021 review of government functions and its impact; and
- recent reporting by the Cabinet Office about functional efficiency savings.

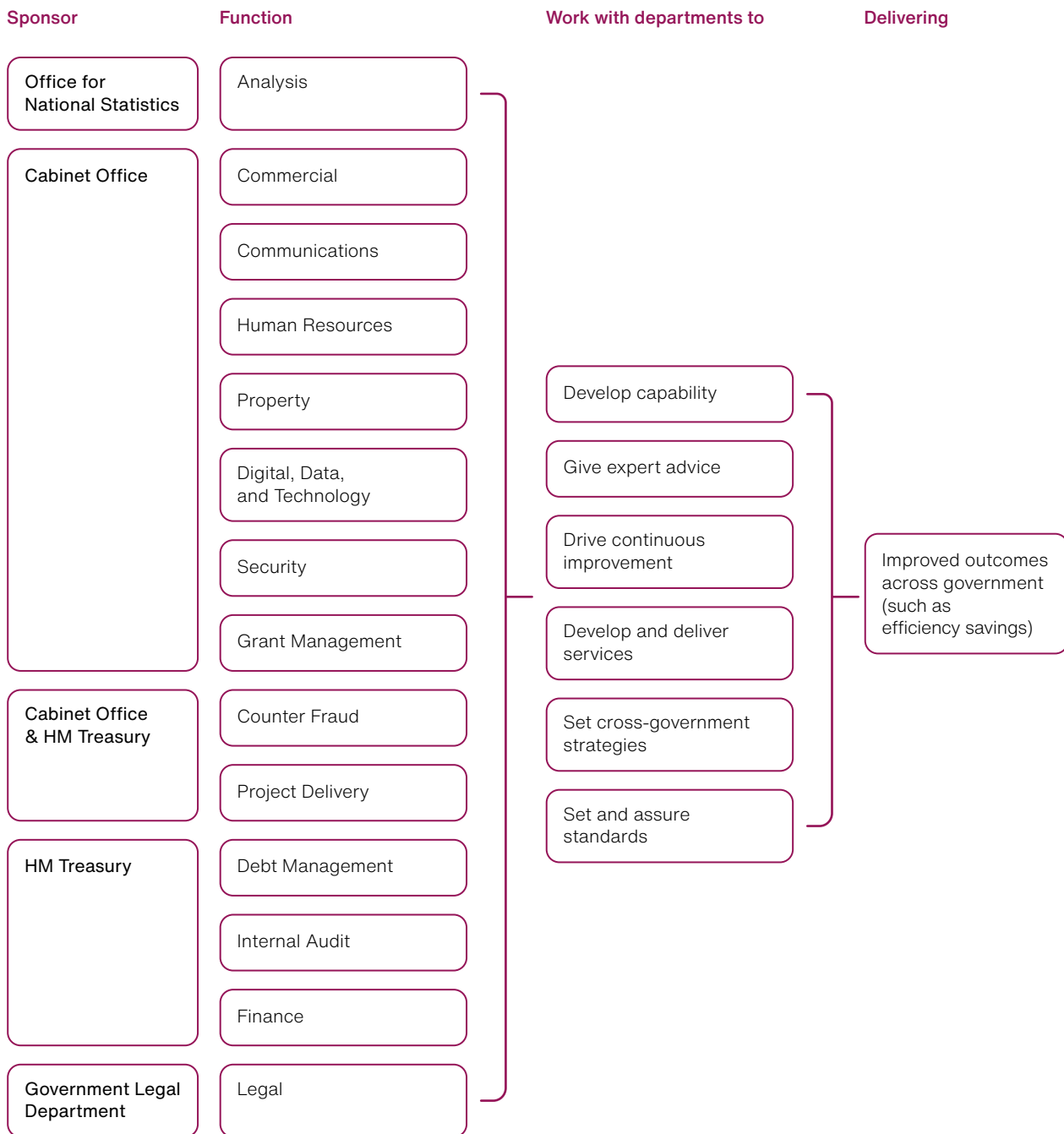
Government functions

1.2 Government functions are groupings of professionals who work across government bodies to provide expert skills to the civil service. By cutting across departments and arm's-length bodies, functions seek to: develop and deploy specialist expertise; set strategies for cross-government working; and set and assure standards for their area of expertise. There are 14 government functions that cover activities such as procurement, major project delivery and finance (**Figure 1** overleaf). Functions overlap with but are distinct from 'government professions', which are skills-training pathways organised within departments to upscale and develop the expertise and capability of civil servants.

1.3 Functions were introduced from 2013 as part of a series of reforms intended to minimise duplication within government and provide government with expert guidance to support delivery of high-quality outcomes. Since then, this functional model has become embedded in civil service working practices. In 2021 HM Treasury (HMT) mandated that all departments adhere to working standards stipulated by functions. These standards set requirements for what needs to be done to ensure collaboration between functions' experts and policymakers in government and are different for each function. For instance, the Analysis function's standards stipulate how government bodies should use and publish official statistics, and which technical codes are to be used for their quality assurance. In 2022 these 'functional standards' were updated. Through their work, functions aim to improve the efficiency of government (Figure 1).

Figure 1
The functional model

The 14 government functions work with departments to improve outcomes across government



Notes

- 1 Debt Management function has recently moved to HM Treasury but sat within the Cabinet Office during the period covered by the functional savings reports.
- 2 The Counter Fraud and Project Delivery functions are headquartered in the Cabinet Office and co-sponsored by HM Treasury.

Source: National Audit Office analysis of the Cabinet Office's documents relating to functions and functional standards

Lord Maude's review and its impact

1.4 Lord Maude published a review of government's cross-cutting functions in July 2021. The report found that functions' ability to provide central oversight had weakened over time. It recommended that functions be given a renewed mandate and that the functions should publish performance data to demonstrate their benefit.

1.5 Following Lord Maude's review of the functions, the Cabinet Office carried out an exercise to measure and report on efficiency savings achieved by Cabinet Office central functions. This includes both financial savings and wider (non-financial) benefits, such as the Finance function's Government Finance Academy upscaling the financial skills of existing civil servants, creating greater in-house capacity and reducing the need for external contractors. There are two types of financial savings: cash-releasing savings reduce the spending of a programme or initiative, directly reducing a required budget; and non-cash-releasing savings – such as due diligence tools to detect and reject fraudulent or erroneous grant applications within a set budget – which can be measured but do not necessarily reduce spending. Wider benefits cannot be measured in monetary terms and include things such as improvements to the quality of services and data quality, or increased social value of a programme (**Figure 2** overleaf).

The Cabinet Office's reports on functional efficiency savings

1.6 In March 2022 the Cabinet Office published the efficiency savings delivered by cross-government functions in 2020-21. The report was intended to cover the functions that sit within the Cabinet Office. The Cabinet Office reported that £3.4 billion of savings were produced “by improving operational efficiency and effectiveness” (**Figure 3** on page 15).

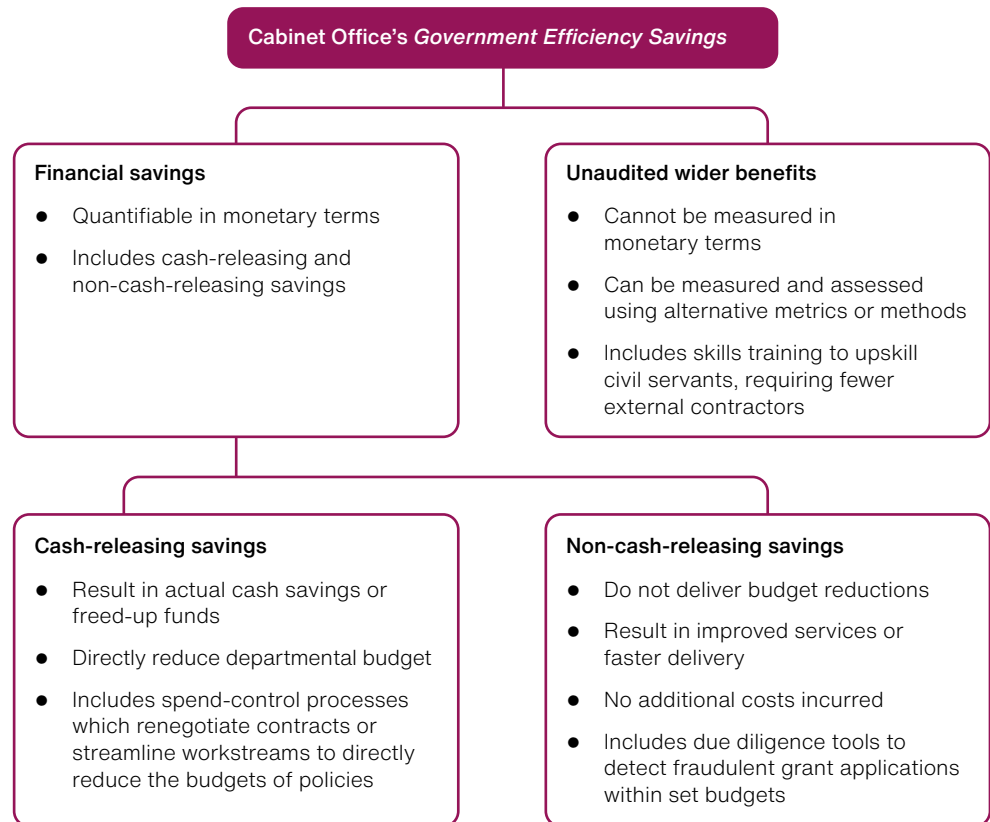
1.7 In 2020-21, the largest efficiencies were attributed to the Counter Fraud function (£1.4 billion) and the Commercial function (£1.4 billion). These included £166 million saved by renegotiating a particular contract and £71 million saved by preventing fraudulent and erroneous claims for public services through data matching activities. The Cabinet Office reported that all these savings had been assured for accuracy and robustness by the Government Internal Audit Agency (GIAA).

1.8 The Cabinet Office's 2020-21 publication stated that the £3.4 billion figure is an understatement of the total savings and benefits delivered by the functions. The report also includes 'unaudited wider benefits' from the Legal, Property, Analysis, Security, and Finance functions, as well as Government Business Services and the Crown Commercial Service.

Figure 2

How the Cabinet Office reports its *Government Efficiency Savings*

The Cabinet Office's efficiencies report includes both financial savings and wider benefits



Note

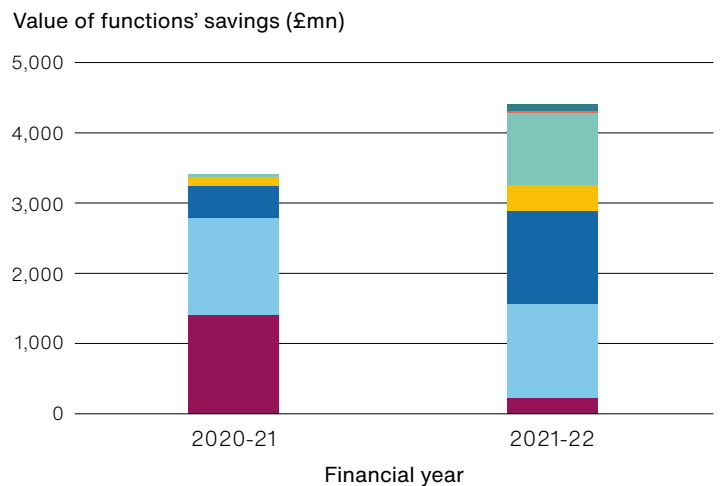
1 *Government Efficiency Savings* was last published by the Cabinet Office on 19 July 2023, and covered the financial year 2021-22.

Source: National Audit Office analysis of the Cabinet Office's commissioning documents and returns guidance for their *Government Efficiency Savings* reports

Figure 3

Functional savings in 2020-21 and 2021-22

The Cabinet Office has published savings for the central functional teams for two financial years



Function	2020-21 (£mn)	2021-22 (£mn)
Analysis	Wider benefit	Wider benefit
Commercial	1,403	226
Counter Fraud	1,388	1,336
Debt Management	441	1,322
Digital, Data and Technology	142	376
Grant Management	34	1,020 (Non-cash-releasing)
Human Resources	None reported	1.4
Communication	None reported	100
Finance	Wider benefit	None reported
Internal Audit	None reported	None reported
Legal	Wider benefit	Wider benefit
Project Delivery	None reported	None reported
Property	Wider benefit	Wider benefit
Security	Wider benefit	None reported
Total	3,410	4,382

Notes

- 1 Totals reflect figures reported by the Cabinet Office's *Government Efficiency Savings* publications.
- 2 Figures do not sum due to rounding.
- 3 Non-cash-releasing savings do not directly reduce the budgets of departments or client bodies, and can include improvements to the quality of service delivery without altering budgets.
- 4 Wider benefits are improvements to service delivery which cannot be directly quantified, such as delivering skills training to increase departments' capacity.

Source: Cabinet Office, *Government Efficiency Savings 2021/22*, 19 July 2023 and Cabinet Office, *Government Efficiency Savings, 2021*, 28 March 2022

1.9 In July 2023, the Cabinet Office reported that the central functional teams delivered £4.4 billion financial savings in 2021-22. Cabinet Office told us central government functional teams are the parts of functions which sit at the centre of government, rather than being embedded within departments. That £4.4 billion consisted of £3.4 billion cash-releasing savings and £1.0 billion non-cash-releasing savings. However, Cabinet Office's technical note to the publication states that some £1 billion of the Counter Fraud savings that Cabinet Office included in the total were delivered by department-led activities supported by the central function. The methodologies supporting these savings were also detailed in the technical note. We have not examined the extent to which savings were delivered by central functional teams for other savings.

1.10 In 2021-22, the Counter Fraud function and the Debt Management function provided the largest savings, each £1.3 billion. The report also included unaudited wider benefits from the Analysis and Property functions and from Government Business Services.

1.11 Government officials need reliable data on where efficiency savings are identified to free up resources for other priorities and to make decisions about where to best allocate resources to maximise return on investment. Managing Public Money emphasises that effective decision-making is reliant on regular, high-quality information about costs, performance and efficiency.

Part Two

Identifying and assuring functional efficiency savings

2.1 This part:

- examines the roles and responsibilities of the functions and Cabinet Office in identifying, tracking and reporting efficiencies;
- explores the Government Internal Audit Agency's (GIAA's) process for auditing the claimed efficiency savings and its conclusions; and
- analyses a sample of the claims against our principles for assessing efficiencies.

How functions identify and track savings

2.2 Cabinet Office has published functional savings from 2020-21, and there has now been two full years of savings reported and assessed by the GIAA. Each year the Cabinet Office commissions the central functional teams to report the benefits and efficiencies achieved in the past year. Functional teams who put together their submissions are responsible for validating the data reported to them by other parts of the function, such as departments, and verifying the accuracy of the data so they have confidence in reporting it. Functions are also expected to verify the baselines used and confirm the existence of appropriate levels of governance as far as possible. The functions then report the data to the Cabinet Office.

2.3 Functions set their own methodologies for tracking and claiming savings from their work. As a result, methodologies vary from function to function. For example, the Government Communication Service compares the baseline forecast for each campaign to the final value approved through the advertising, marketing and communications (AMC) spending control process to calculate its efficiencies, whereas the Government Debt Management function monitors the additional yield it creates over and above the day-to-day activities carried out by the department. Some functions have more experience than others in tracking efficiency savings. For example, the Commercial function has a detailed methodology for claiming savings (**Figure 4** overleaf). In 2023, the GIAA found that the Property function was new to the process of benefits-tracking and its approach did not include the appropriate level of detail and documentation required, and so did not progress with the audit of the savings.

Figure 4

The Government Commercial Function's savings methodology

The Commercial function sets a methodology for all its functional teams claiming commercial savings

Definitions of categories	
Cashable savings	Cash-releasing savings are those that, all things being equal, will directly reduce a Departmental budget requirement.
Non-cashable savings	Non-cashable savings are quantifiable financial benefits which do not release cash back into a budget. This can include cost avoidance, price protection, value-add, inflation avoidance, or improved demand management.
Wider benefits	Wider benefits are savings which are not easily or credibly monetisable. For example, improvement in quality, increased social value, environmental improvements, organisational learning and user experience.
Considerations when calculating a saving	
General considerations	A saving must be a consequence of commercial-led activity. Guidance is provided about timing and differentiating between forcecasted and contracted savings.
Agreeing a baseline	Guidance is provided on how to calculate a baseline, including when it is based on a new contract and when it is based on an existing contract.
Considering cost pressures	Guidance is provided on how to factor in issues such as inflation, a change in legislation, and contractual disputes with a supplier.
Working with Crown Commercial Service	Although Crown Commercial Service (CCS) show percentage commercial benefits for each framework, departments should not submit these commercial benefits as a non-cashable saving. CCS uses these in its commercial benefits calculation and would therefore result in duplication of savings submissions. Other non-cashable savings, such as a quicker route to market, can be claimed by departments.
Reporting savings	Savings will be collected for the Government Commercial Function (GCF) dashboard on a quarterly basis. The savings commission for the GCF dashboard should be considered the single source of the truth for savings numbers – please include all savings in these commissions and make sure they line up with the new methodology.

Note

1 The wording used in this graphic is from the GCF savings methodology.

Source: National Audit Office analysis of Government Commercial Function savings methodology

How the Cabinet Office verifies savings

2.4 The Cabinet Office coordinates, assures and reports the functions' efficiency savings. It provides guidance to the functions about what they should report. Upon receiving data from the functions, the Cabinet Office checks the data to assess quality. It describes the process as collaborative, with officials talking to representatives of the functions throughout. The Cabinet Office told us that it aims to improve the data quality, identify unclaimed savings and conduct verification checks on all data received from functional teams. The Cabinet Office is responsible for the accuracy of the figure for the total amount of savings reported.

2.5 The Cabinet Office requires that each efficiency saving receives a 'moderate' assurance rating (a reasonable level of confidence in the savings reported) or above for it to be published in its report. The Cabinet Office holds regular meetings with GIAA throughout the process, arranges meetings between GIAA and functions as necessary, and responds to the GIAA's written reports. The Cabinet Office also receives recommendations from GIAA, for example, on guidance provided to the functions and sharing best practice and is responsible for coordinating the functions' response and integrating the recommendations into the future process.

2.6 The Cabinet Office reports savings from those functions headquartered in the Cabinet Office for the period it is reporting on – 10 functions for the 2021-22 report – but savings generated by functions headquartered elsewhere in government for the period being reported on are not captured in the exercise. The Cabinet Office provides challenge to functions headquartered in the Cabinet Office, on an ad hoc basis, where it believes functions have secured savings but not submitted them as part of the process. In 2023, GIAA noted that there was a risk that efficiencies might be underreported due to the amount of support the Cabinet Office could provide to the functions during the exercise. The Cabinet Office acknowledges that efficiency savings may be underreported due to scope and resource limitations.

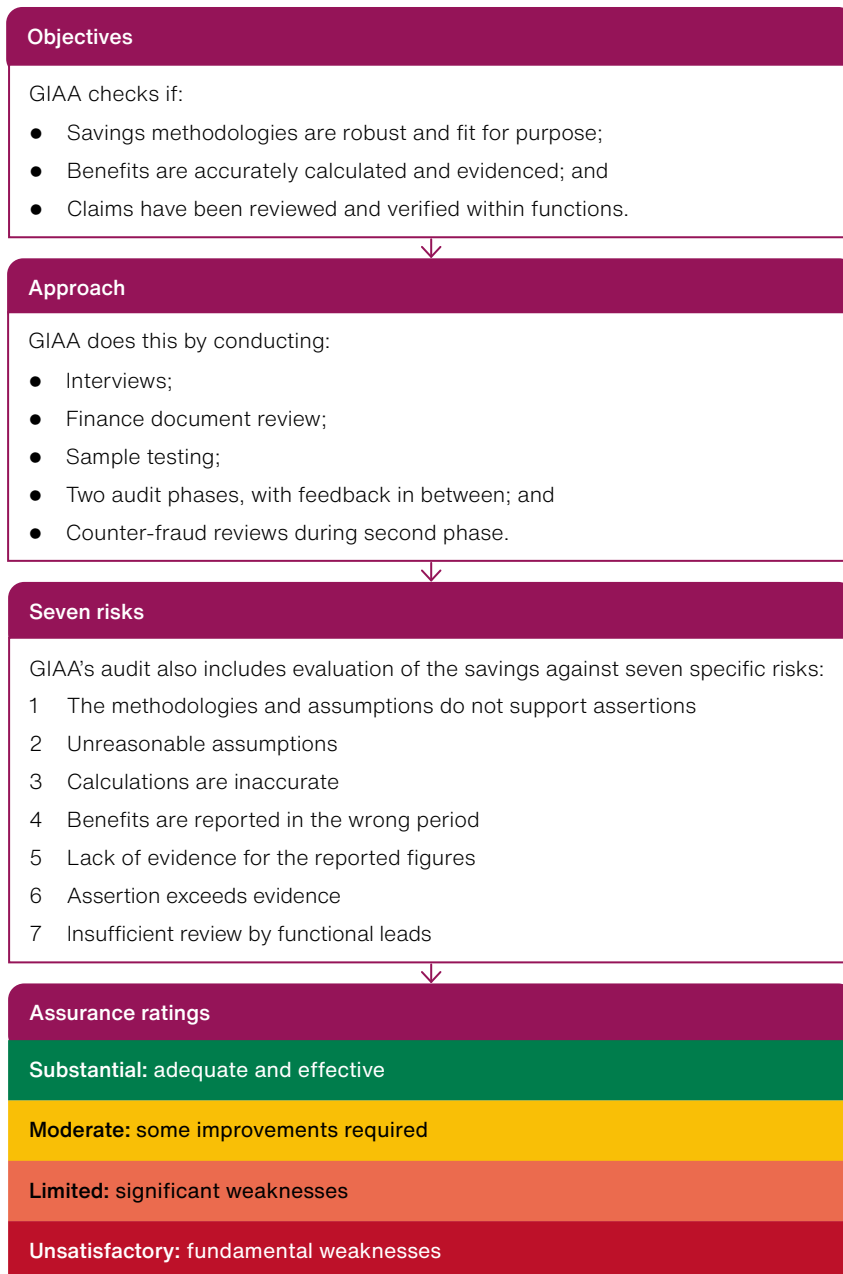
GIAA's conclusions on the savings

2.7 The Cabinet Office commissioned the GIAA to provide assurance that the processes established to validate the efficiency savings were robust and evidence based. The Cabinet Office report states that the GIAA assesses whether methodologies are appropriate, the reported figures accurately calculated and supported by evidence, and that claims have been reviewed and verified according to the functions' governance and oversight procedures. The GIAA told us that it evaluated the reported savings against seven key risks (**Figure 5** overleaf) including incorrect calculations, benefits being reported in the wrong period, and insufficient review. The scope of its audit does not include whether efficiency savings affect resilience planning or service user experience. In addition, the Cabinet Office does not ask functions to assess whether their savings might add costs in other areas, because it considers that this is not always possible or proportionate.

Figure 5

Government Internal Audit Agency’s (GIAA’s) approach to assuring functional efficiency savings for financial year 2021-22

GIAA’s agreed terms of reference with the Cabinet Office laid out the agreed-upon objectives and approach



Notes

- 1 The colour-coded assurance ratings provided are given for the entire saving claimed by a function, and relate to the function’s performance against each of the seven risks and tests in GIAA’s audit approach.
- 2 These assurance ratings are not stipulated in the initial Terms of Reference for the GIAA audit, but were part of the process output in GIAA’s summary report to the Cabinet Office.

2020-21 savings exercise

2.8 In 2022, the GIAA review noted a number of issues with the methodology, evidence base and assurance of some savings claimed:

- **Methodology:** It noted that while most functions provided a methodology and evidence to support savings, standards varied widely between functions. Moreover, even within some functional teams, methods and evidence were inconsistent.
- **Evidence base:** The GIAA noted some claims where the evidence was not available, and others where evidence did not support the claimed saving.
- **Assurance:** The GIAA found some savings where approvals were not obtained as required. Its findings emphasised the inconsistency of data and called for adequate quality assurance procedures to be put in place.

2.9 GIAA concluded that the processes in place for 2020-21, did not sufficiently mitigate the risk of claims being under- or overstated. In April 2022, GIAA noted that while some savings had been through an initial quality assurance process conducted by the Cabinet Office, the actions requested by the Cabinet Office had not always been sufficiently acted on by the functions.

2021-22 savings exercise

2.10 In discussion with Cabinet Office GIAA changed its methodology for the 2021-22 exercise. In 2020-21 it examined the evidence base for each identified saving to provide an assurance rating for each saving. For 2021-22, GIAA provided an overall rating, and a rating for each functions' group of savings. It examined the processes of governance, risk management and control. The GIAA told us that it moved more to a controls rather than substantive testing approach in 2021-22.

2.11 Overall, GIAA reported that it found the "majority of the functional teams had clear methodologies in place and evidence packs to support the headline savings claimed". It made 21 recommendations to improve the existing processes. Most of these recommendations related to specific functions, but the GIAA also recommended that the Cabinet Office produce "principles-based" guidance for functions about how savings should be calculated and presented. GIAA also recommended the Cabinet Office share good practice among the functions.

2.12 The weaknesses GIAA identified for the 2021-22 savings were similar to its findings in the prior year.

- **Methodology:** The GIAA found inconsistencies across functions in the way they calculated and evidenced savings. GIAA recommended that the Cabinet Office ensure that there is greater consistency across functions. The GIAA also pointed out that some of the methodologies lacked the detail required for consistent calculations. It recommended the Cabinet Office share best practice among functions and for some functions to revise their methodologies.
- **Evidence base:** When reviewing a sample of claimed savings, the GIAA found issues such as: an example that did not factor in costs; an improperly used worst-case scenario as a baseline; and miscalculations. The GIAA noted that some savings involved very little input from the functions. No or limited evidence was provided to GIAA for at least three of the claimed savings.
- **Assurance:** GIAA needed enhanced documentation and more transparency in the cost-validation and data verification process to ensure the accuracy of reported savings and better assure individual savings.

2.13 We spoke to three functions about the process. We heard that assurance would be more beneficial if the Cabinet Office provided more guidance, including a standardised direction on the categories and definitions of types of benefits and shared examples of good practice. One function expressed a preference for more detailed audits rather than relying on sample-based audits and would like assurance on each of its savings components.

Our assessment of the process

2.14 We looked in detail at the evidence held by GIAA for five of the functional efficiency savings (**Figure 6**), assessing them against eight tests developed from our previous work on efficiencies in government. These eight tests analysed whether the audit:

- distinguished between savings to date and those anticipated in future;
- reported one-off savings separately from ongoing reductions in annual spend;
- used data from reliable sources and cautious estimates;
- ensured savings were calculated using an appropriate economic or cost-accounting methodology and checked internally before publication;
- ensured all transitional costs and ongoing costs should be netted off from savings, and that adverse effects on other programmes were also recognised;
- ensured baseline was a realistic forecast rather than a worst-case scenario;

- assessed whether financial or cash-releasing savings reduced annual expenditure, clearly distinguished non-cash-releasing savings, and that efficiency savings represent the same output for less cost; and
- checked that savings were not double-counted and would not be reported again in future initiatives.

We found some examples where the underlying data could not be verified, and some issues around accuracy of reporting, which had also been highlighted by GIAA.

Figure 6

Assessing the claimed efficiencies

Our analysis of a sample of savings found examples where data could not be verified, potential issues with the accuracy of reporting, as well as instances where central functional teams had acted on the recommendations provided by the Government Internal Audit Agency (GIAA)

Theme	Findings on methodology, data, or audit trail identified in the National Audit Office sample
Verifying underlying data	The Government Grant Management Function reported that its Spotlight tool generated £1 billion in non-cash-releasing savings. The function does not currently undertake activities to verify the accuracy of the data entered into Spotlight by departments, meaning any potential inaccuracies in this data are not identified and could impact the savings reported.
	The GIAA found the Counter Fraud Function generally had a sound methodology. It raised concerns about savings that relate to Economic and Serious Organised Crime (ESOC). Neither the ESOC's underlying historical data that feed into the estimates, nor the savings methodology for the calculations, were provided to the GIAA. It was agreed that this element of the saving be removed from the final figures published.
	Digital and Data function could not provide GIAA with proper digital transformation contract spending data in the form of account statement actuals for FY 2021-22 and GIAA cannot provide full assurance.
Accuracy of reporting	The Government Debt Management Function reported a gross saving of £445 million through its Debt Markets Integrator (DMI) programme. GIAA noted that the Cabinet Office should publish the net savings, factoring in the annual costs to the gross £445 million benefits figure. The function was unable to do this and, with agreement, published the gross figure with noted caveats.
	The Government Communication Service (GCS) works to reduce budgets for government media campaigns. GIAA found that the methodology was well documented and clearly showed the quantifiable impact of the spend control process. It recommended that GCS omit the 'COVID worst-case scenario' from its baseline estimates as it was misleading. The function and Cabinet Office followed GIAA's advice and removed the worst-case scenario from their calculations.

Notes

- 1 In its Technical Note accompanying the *Government Efficiency Savings* publication the Cabinet Office noted that the £445 million saving published for the Government Debt Management Function included costs.
- 2 By financial year 2022-23, the Counter Fraud Function had been renamed to the Public Sector Fraud Authority.

Source: National Audit Office analysis of Government Internal Audit Agency's (GIAA) functional savings assurance working papers and supporting documentation provided by GIAA

2.15 In one instance, a function was unable to act on the issues highlighted by GIAA. GIAA noted that the Debt Management function's reported £445 million benefit did not factor in any fee paid to the contracted debt collection company and the efficiency should be reduced by that fee. The function explained that it was not possible to accurately separate out and apportion costs between all debt collection activity and additional yield. With agreement from GIAA the gross figure was used in the publication, with a caveat stating that it included the additional costs.

2.16 The GIAA also raised concerns that Spotlight data underpinning the Government Grant Management Function's reported efficiency savings may contain unknown errors. The function does not currently undertake activities to verify the accuracy of the data entered into Spotlight by departments, which could impact the £1 billion non-cash-releasing savings reported.

2.17 The GIAA provided feedback to functions in time for them to make improvements before publication, but an uncorrected claim was nevertheless published with a caveat. The Cabinet Office required that functions receive at least 'moderate' assurance before being published. GIAA provided all except one function with a 'moderate' rating for 2021-22. However, the GIAA's 'moderate' assurance rating signifies that improvements are required. Moreover, the GIAA was assuring the functions' processes, not individual efficiency claims. The Cabinet Office has told us that the GIAA's suggested improvements will be factored into the process during the next savings review for the financial year 2022-23.

Part Three

Lessons for future efficiency work

3.1 This part sets out:

- good practice for tracking and assuring efficiencies and savings;
- learning by the Government Internal Audit Agency (GIAA) and the Cabinet Office from the current initiative; and
- HM Treasury’s new efficiency framework.

3.2 In the 2021 Spending Review HM Treasury set multi-year budgets for departments, encouraging them to achieve efficiency savings of approximately 5% by 2024-25. In the Spring Budget 2023, the government stated its commitment to “continuing to identify ways to work more efficiently and reduce day-to-day running costs of government”.

3.3 In our 2021 report *Efficiency in government*, we noted that government can achieve efficiency gains by carrying out activities faster; with fewer resources or to a higher standard without additional resources (‘technical’ efficiency); or by focusing resources on those activities with the best ratio of costs to the benefits achieved (‘allocative’ efficiency).

Good practice

3.4 We have previously reported on government’s efficiency programmes and what constitutes good practice. A decade ago, we looked at the Efficiency and Reform Group and its annually reported savings. In those reports, we laid out our criteria for assessing savings. Our nine principles for claiming efficiency savings (**Figure 7** overleaf) are based on the same standards that we used during those reports.

Figure 7

Principles for claiming efficiency savings

We have previously recommended that efficiency savings should be carefully calculated, evidenced, and reported

Principle	Definition
Realised	Distinguishes between savings to date and those anticipated in the future
Sustainable	One-off savings reported separately from ongoing reductions in annual spend
Data quality	Data from reliable sources and cautious estimates
Properly calculated	Savings should be calculated using an appropriate economic or cost-accounting methodology and checked internally before publication
Net of costs	All transitional costs and ongoing costs should be netted off from savings. Adverse effects on other programmes should also be recognised
Realistic baseline	Baseline should be a realistic forecast rather than a worst-case scenario
Cash-releasing	Financial or cash-releasing savings will reduce annual expenditure. Efficiency savings should represent the same output for less cost. Non-cash-releasing savings should be clearly distinguished
Scored only once	Savings should not be double-counted and should not be reported again in future initiatives
Avoids adverse effects	Efficiencies should not adversely affect resilience planning or service user experience, and efficiencies should not add costs to other parts of government

Note

1 These principles are based on previous National Audit Office reports on reporting efficiency savings.

Source: Comptroller and Auditor General, *The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 887, National Audit Office, March 2011; Comptroller and Auditor General, *The 2012-13 savings reported by the Efficiency and Reform Group*, Session 2013-14, HC 126, National Audit Office, July 2013; Comptroller and Auditor General, *The 2013-14 savings reported by the Efficiency and Reform Group*, Session 2014-15, HC 442, National Audit Office, July 2014; Comptroller and Auditor General, *Efficiency in government*, Session 2021-22, HC 303, National Audit Office, July 2021

3.5 We have previously reported that efficiency initiatives need to be embedded into the day-to-day running of government to succeed. Drawing on our previous work, in 2021 we identified areas that government should consider when attempting to achieve efficiency gains in the coming months and years (**Figure 8**). For example, we noted that departments need to avoid optimism bias; ensure assumptions are realistic; and provide sufficient challenge. In our work on improving planning and spending in government we recommended that HM Treasury should reflect its commitment to deliver longer-term value for money more strongly in its systems and processes, including arrangements for monitoring departmental performance and risks.

Figure 8

Areas to consider when seeking efficiencies

In 2021, the National Audit Office identified these key issues, based on our analysis of past efficiency initiatives

Identifying efficiency gains



Consider the potential gains that can be achieved over the long term, including those that may have additional upfront costs.

Recognise the relationship between short-term efficiencies and resilience to deal with unexpected events.

Understand service users and what they value, to reduce unnecessary activity and predict how they will react when services change.

Be aware of the links between different parts of government and the risk that attempted efficiencies in one area inadvertently increase costs somewhere else.

Planning to achieve efficiency gains



Be aware of optimism bias and learn from past experiences.

Identify risks and plan how to manage them.

Ensure there is sufficient capability to achieve the efficiency gains.

Measure progress towards realising efficiency gains and plan to learn lessons for the future.

Embedding efficiency



Focus on continuous improvement.

Learning from the functional savings exercise

3.6 In its 2022 report on the 2020-21 functional savings, GIAA noted inconsistencies in the functional efficiencies process and made 29 recommendations for improvements. Cabinet Office did not produce an action plan for the 2020-21 year.

3.7 In its March 2023 report GIAA made 21 recommendations for improving the functional efficiencies reporting process. Many of these recommendations were directed at individual functions and related to specific issues in their 2021-22 submissions. The Cabinet Office has developed an action plan in response to GIAA's 2023 recommendations. Not all the 2023 recommendations have been actioned. Cabinet Office has deemed two recommendations to be out of scope, believes nine recommendations are completed and ten are ongoing.

3.8 The GIAA recommended that the Cabinet Office provide more guidance to all the functions and circulate good practice examples. It noted that the standards varied greatly between functions and the Cabinet Office guidance could help to ensure consistency across the functions. In August 2023 Cabinet Office shared updated guidance with the functions, which included definitions of benefits and efficiencies, criteria for recognising a benefit, categories of benefits and efficiencies and the evidence to be supplied to GIAA for its audit work. The guidance did not include good practice examples.

3.9 More widely, the Cabinet Office told us it has learnt from its reporting on central functional savings. Cabinet Office created a single coordination point within Cabinet Office for collating the savings, and told us that this had been helpful in engaging with the functions and providing challenge, particularly given the wide range of activity covered by the functions. The Cabinet Office also told us that it had learnt the value of being clear about what information is required from the functions and told us it had better communicated its expectations as it had developed the process.

3.10 The Cabinet Office told us that engaging with central functional teams and understanding their different approaches to driving efficiency within departments had provided it with valuable insights around incentivising efficiencies. It noted that functions have their own different approaches to incentivising the reporting of efficiencies by members of Cabinet Office. The Cabinet Office told us that it is working to improve communication and knowledge-sharing between functions.

The Government Efficiency Framework

3.11 In 2023 HM Treasury issued a framework for tracking, monitoring and overseeing efficiency savings. The framework provides definitions, guidance and best practice examples on how departments should calculate and report efficiency savings to HM Treasury. HM Treasury expects departments to adopt the framework for reporting efficiency savings for the financial year 2023-24 and arm's-length bodies to do so in 2024-25.

3.12 The government will carry out two separate exercises to identify and report efficiency savings: the Cabinet Office-led exercise for savings secured by central functional teams; and, the HM Treasury-led exercise for savings secured within departments. HM Treasury and Cabinet Office expect that some convergence may occur naturally between the new framework and the functional efficiency exercise, as people across government talk more about efficiencies and develop common definitions but HM Treasury does not currently expect functions (aside from the Finance function) to report to HM Treasury if they do not already. The same savings may be counted in both exercises if they are reported by both functions and departments. One function we spoke to told us that it would like to see HM Treasury's framework and the functional savings reporting aligned as far as possible.

3.13 The Cabinet Office has been working with central functional teams to ensure that they are aware of the new framework. However, the three functions we spoke to said that they had had limited engagement on the new framework. The Cabinet Office also produced an assessment of how last year's reported savings would be scored as efficiencies under the new framework. It noted that some of the efficiencies reported in 2021-22 would still be considered efficiencies under the new standards while others would not qualify under the HM Treasury standards, although some might be classified as non-efficiency savings, which are decisions to reduce costs with the intention to achieve less. The Cabinet Office's assessment also highlighted potential issues with capturing some functional savings in the new *Government Efficiency Framework*, such as how to determine an appropriate baseline when calculating savings.

3.14 HM Treasury also told us that it is increasingly collaborating with the functions. Functions are expected to help identify savings so that departments can deliver savings that HM Treasury is seeking. The relationship has evolved significantly since the 2021 Spending Review, when functions work to identify efficiency savings was just beginning. HM Treasury expect that the relationship with functions will be even more mature by the 2024 Spending Review. Its goal is to engage with the functions in a systematic way to deliver efficiencies for departments.

Appendix One

Our evidence base and audit approach

Our audit approach

- 1 This report examines how effectively the Cabinet Office monitors and reports functional efficiency savings.
- 2 We divided our review into:
 - explaining how and why functions track efficiency savings;
 - examining the roles and responsibilities of the functions, the Cabinet Office and the GIAA in monitoring efficiency savings, and the limitations of the current approach; and
 - discussing what lessons can be learned from this exercise for future efficiency work.
- 3 We did not audit the methodologies functions used to calculate the efficiency savings nor did we fully reperform the exercise GIAA and Cabinet Office undertook to assure the savings. We did not look at any savings calculated by departments which do not form part of the functional savings.

Our evidence base

- 4 We reached our independent conclusions on functional efficiency savings after analysing evidence collected between May and September 2023.
- 5 We conducted eight interviews to understand: what processes Cabinet Office has in place to track, collect, and assure the savings figures for publication; what work GIAA does to assure the figures; and the perspectives of functions on the process.
 - **Two with Cabinet Office** to understand its role in coordinating functions' tracking and reporting methodology, what 'steer' or incentives it provides, and how it coordinates criticism or recommendations for functions to improve their savings methodologies, especially after GIAA audits.

- **Two interviews with GIAA on its process.** We interviewed senior members of GIAA's audit team responsible for auditing the functions' efficiency savings. Interview topics included timescales for the projects, year-on-year changes to methods, and what GIAA's recommendations and audits seek to target for improvement.
 - **One interview with HM Treasury** to discuss how the *Government Efficiency Framework* will seek to change or contribute to the current efficiency savings landscape in government, and what assurance or guidance it has given functions in the past.
 - **Three interviews with government functions** to understand how they found the assurance process useful, and how they felt the process could be improved. We also asked functions about what changes they have made to their efficiency savings since financial year 2020-21, and what future developments were in the pipeline. We spoke to senior data and financial analysts in the Government Grant Management Function, the Government Communication Service, and the Public Sector Fraud Authority.
- 6 Our fieldwork interviews were held virtually over Microsoft Teams.

Document review

7 To develop our understanding of the efficiency savings and assurance process, we reviewed a range of departmental frameworks and commissions, audit reports, and public finance documents, as well as publicly available declarations and policy documents published by the government, and previous National Audit Office (NAO) reports on cross-government efficiency. The documents we reviewed spanned 2011–2023.

8 To understand and evaluate the efficiency savings landscape in government and immediate context to the Cabinet Office agenda, we reviewed:

- a policy papers and declarations on efficiency, including: *Efficiency and Reform in the next Parliament* (2014); Lord Maude's *Review of the cross-cutting functions and the operation of spend controls* (2020); and *The Declaration on Government Reform* (2021);
- b HM Treasury documents on public finance and efficiency, past and present, including: *Managing Public Money* (rev.2023); *The Aqua Book* (2015); *The Autumn Budget and Spending Review 2021* (2021); *The Green Book* (2022); and *The Government Efficiency Framework* (2023);

- c previous NAO publications on efficiency and the functional model in government, including: *The Efficiency and Reform Group's role in improving public sector value for money* (2011); *The savings reported by the Efficiency and Reform Group* (2012-13, and 2013-14); *Capability in the civil service* (2017); *Efficiency in government* (2021); and
- d HM Treasury documents relating to functional standards and why departments are required to adhere to them.

9 To understand and evaluate the processes used by Cabinet Office and the functions to track, assure, and publish efficiency savings, we reviewed:

- a the functional efficiency savings published by Cabinet Office in financial years 2020-21 and 2021-22, as well as their corresponding technical notes;
- b the aggregate returns datasets which expanded on the types and sources of individual savings claimed by the Cabinet Office;
- c commissions for savings estimates sent out to functions by the Cabinet Office;
- d changelogs and lessons learned documents produced by Cabinet Office for its reporting methodology, incorporating guidance from external sources such as GIAA;
- e Cabinet Office master spreadsheets, which detailed each functional savings return, and a checklist for its quality assurance;
- f Cabinet Office's working paper, which details how its savings reporting might change in response to HM Treasury's new *Government Efficiency Framework*;
- g functional standards documents, including the Cabinet Office's functional standard framework, and individual functional standards, such as those for the Analysis and Commercial functions;
- h savings methodologies and accounts documents from functions where they were available, such as from the Commercial and Property functions; and
- i older functional savings assurance guidance, that pre-dated the Maude Review, produced by the Counter Fraud Function.

10 To examine GIAA's assurance process, we reviewed:

- a both of GIAA's audit reports for the Cabinet Office's claimed functional savings, in financial years 2020-21 and 2021-22;
- b GIAA's methodology documents produced in response to the Cabinet Office functional savings commissions; and
- c to help us understand the landscape of departmental savings, we reviewed some annual accounts statements for departments, such as for the Department for Work & Pensions, in financial year 2021-22.

Our sampling exercise

11 As part of our fieldwork, and to support our understanding of the assurance process that involves both Cabinet Office and GIAA, we sampled five of the claimed efficiency savings in financial year 2021-22. We assessed GIAA's audit against our own metrics and looked at Cabinet Office's work in responding to the findings and actioning recommendations. Our approach involved the following:

- A scoping stage in which we identified key elements of high-quality assurance of government efficiency claims, based on previous NAO reports into cross government efficiency (see Figure 8).
- The selection of a sample of efficiency savings claimed in financial year 2021-22. Our sample was selected to include a range of financial sizes, types of efficiency, and primary departments, and included one savings from each of the following five functions: the Counter Fraud Function; the Government Grant Management Function; the Government Debt Management Function; the Government Communication Service, and the Digital and Data Office.
- We requested relevant documentation from GIAA, including: its working paper which assessed how each saving was tested against its seven risks; evidence presented by the function in support of the claimed savings, methodologies for their calculation; and sign-off documents or approvals correspondence within the function.
- We cross-referenced the documentation provided by GIAA against its seven risks, and against our rubric of eight key elements of high-quality savings assurance. We detailed our findings in an evidence matrix.
- Finally, we assessed Cabinet Office's responses to the recommendations made by GIAA, and traced the figures submitted to the auditor through to publication, to assess how effectively the audit process was working. We drew our independent conclusions based on this analysis, as well as by cross-referencing GIAA's audit to the evidence provided.

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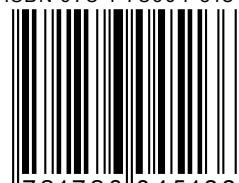


National Audit Office

Design and Production by NAO Communications Team
DP Ref: 013854-001

£10.00

ISBN 978-1-78604-513-3



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